

## Message Text

CONFIDENTIAL

PAGE 01 STATE 061168

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TO AMEMBASSY MANILA

C O N F I D E N T I A L STATE 061168

FOL REPEAT OF STATE 061168 TO ALL AMERICAN REPUBLIC DIP POSTS  
BELIZE RIO DE JANIERO LONDON USCINCSO XMT MONTEVIDEO  
NASSAU SANTIAGO MAR 19

QTE:

C O N F I D E N T I A L STATE 061168

E.O. 11652: GDS

TAGS: ETRD, EAGR

SUBJECT: SUGAR: LATIN AMERICAN PRODUCERS MEETING AT  
PUERTO PLATA

REF: SANTO DOMINGO 0945

SUMMARY: THE DEPARTMENT IS CONCERNED THAT THE SCHEDULED  
APRIL 21 MEETING OF LATIN AMERICAN SUGAR PRODUCERS NOT BE-  
COME A FORUM FOR DISCUSSION OF PRICE MAINTENANCE PROPOSALS.  
WE BELIEVE SUCH DISCUSSIONS WOULD NOT BE IN THE BEST  
INTERESTS OF THE PRODUCERS THEMSELVES AND MOST LIKELY WOULD  
BE MISUNDERSTOOD BY THE U.S. PUBLIC AND CONGRESS. POSTS  
ARE REQUESTED TO CONVEY THESE VIEWS TO HOST COUNTRY GOVERN-  
MENT AND SUGAR INDUSTRY OFFICIALS AND REPORT REACTIONS.

1. LATIN AMERICAN SUGAR PRODUCERS INCLUDING CUBA, MET AT  
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PAGE 02 STATE 061168

COZUMEL, MEXICO NOVEMBER 25-27, 1974. PURPOSE OF MEETING

WAS ANNOUNCED AS TO: ENCOURAGE COOPERATION AND CONSULTATION AMONG LA PRODUCERS; EXCHANGE INFORMATION AND STATISTICAL DATA ON THE SUPPLY AND DEMAND FOR SUGAR AND ITS PRICE; COORDINATE LA POSITIONS FOR DECEMBER 1974 MEETING OF INTERNATIONAL SUGAR COUNCIL; AND LOOK AT MARKET PROSPECTS FOR 1975. TO THE BEST OF OUR KNOWLEDGE (BASED ON DOCUMENTS FROM MEETING AND REPORTS FROM FOUR DIFFERENT PARTICIPATING

COUNTRIES) THE MEETING DID NOT DISCUSS THE ESTABLISHMENT OF PRICE DEFENSE MECHANISMS. NEVERTHELESS, PRESS REPORTS FROM THE MEETING, WHICH RECEIVED WIDE CIRCULATION IN THE U.S. INCLUDING THE NEW YORK TIMES AND JOURNAL OF COMMERCE, STATED THAT LA PRODUCERS HAD AGREED TO FORM A CARTEL TO MAINTAIN SUGAR PRICES NEAR THEIR THEN CURRENT LEVELS. PREDICTABLY, THE DEPARTMENT, RECEIVED NUMEROUS INQUIRIES FROM THE CONGRESS AND THE PUBLIC.

2. THE LA SUGAR PRODUCERS, PROBABLY INCLUDING CUBA, ARE SCHEDULED TO MEET AGAIN APRIL 21 IN PUERTO PLATA, DOMINICAN REPUBLIC. BETWEEN THE NOVEMBER MEETING AND THE PRESENT, WORLD SUGAR PRICES HAVE FALLEN FROM OVER 60 CENTS PER POUND TO UNDER 30 CENTS PER POUND. ALTHOUGH CURRENT PRICES ARE STILL HIGHLY REMUNERATIVE TO PRODUCERS, SOME PRODUCERS MAY BE PROMPTED TO PROPOSE THE PUERTO PLATA MEETING DISCUSS WAYS UNILATERALLY TO QUOTE DEFEND UNQUOTE PRICES AGAINST FURTHER DECLINES. UNCONFIRMED REPORTS ARE ALREADY CIRCULATING AMONG SOME PRODUCERS THAT CUBA MAY PROPOSE SUCH ACTION.

3. WE BELIEVE ANY DISCUSSION BY LA PRODUCERS OF PROPOSALS FOR PRICE DEFENSE MECHANISMS WOULD BE ILL ADVISED. THERE IS EVIDENCE THAT CURRENT SUGAR PRICES ARE TOO HIGH FOR PRODUCERS' BEST INTEREST. CONTINUATION OF TODAY'S BOOM PRICES COULD LEAD TO A BUST OR SIGNIFICANTLY SMALLER MARKET IN THE LONGER TERM BY STIMULATING SUBSTITUTES.

4. A LEADING INTERNATIONAL TRADING FIRM, C. CZARNIKOW LTD. OF LONDON AND NEW YORK, COMMENTED IN ITS FEBRUARY 27 NEWSLETTER AS FOLLOWS: QUOTE IT IS CLEAR THAT IN SOME CASES THERE HAS BEEN A CHANGE IN THE PATTERN OF SUGAR  
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PAGE 03 STATE 061168

CONSUMPTION LARGELY OCCASIONED BY THE PRESENT AND RECENT LEVELS OF PRICES. IN SOME FIELDS ALTERNATIVE, LESS SWEET, COMMODITIES CAN BE UTILIZED BY MANUFACTURERS. THESE MAY CHANGE THE NATURE OF THE FINAL PRODUCT BUT STILL LEAVE IT ACCEPTABLE TO BUYERS AND IT SEEMS POSSIBLE THAT, UNLESS SUGAR PRICES ARE REDUCED EVEN FURTHER, EARLIER FORECASTS OF FUTURE CONSUMPTION WILL PROVE TO BE FAR TOO HIGH. END QUOTE.

5. THE MAIN SUBSTITUTE PRODUCT FOR LARGE U.S. INDUSTRIAL USERS IS HIGH FRUCTOSE CORN SYRUP. ONE INDUSTRY SOURCE RECENTLY PREDICTED THE PRODUCTION CAPACITY FOR THE SYRUP IN THE U.S. SHOULD REACH THE EQUIVALENT OF 3 MILLION TONS REFINED SUGAR BY 1980 AT A PRICE OF 15 CENTS PER POUND. ON THE PRODUCTION SIDE, CURRENT HIGH PRICES ARE EXPECTED TO STIMULATE SUBSTANTIAL INCREASES IN BEET SUGAR PRODUCTION. PRELIMINARY USDA ESTIMATES FOR

1975 PLACE EXPECTED DOMESTIC U.S. SUGAR BEET PLANTINGS AT 22 PERCENT ABOVE LAST YEAR. THIS COULD PRODUCE AS MUCH AS 800,000 ADDITIONAL TONS OF SUGAR.

6. THE REACTION TO HIGH SUGAR PRICES IS CLASSIC: REDUCED CONSUMPTION; INCREASED USE OF SUBSTITUTES AND INCREASES IN DOMESTIC PRODUCTION. ACTIONS BY LA PRODUCERS WHICH MIGHT GIVE THE IMPRESSION THEY SEEK TO MAINTAIN PRESENT LEVELS COULD REINFORCE THESE TRENDS. THE NET RESULT COULD BE A PERMANENT SHRINKING OF THE WORLD SUGAR MARKET ACCOMPANIED BY INCREASED SUPPLIES AND INEVITABLY, A RETURN TO LOW PRICES.

7. GIVEN THE CIRCUMSTANCES DESCRIBED ABOVE, PLUS THE FACT THAT THE LA PRODUCERS ACCOUNT FOR ONLY 30 PERCENT OF WORLD SUGAR PRODUCTION AND 50 PERCENT OF WORLD EXPORTS, IT IS UNLIKELY AN ATTEMPT BY LA PRODUCERS TO CONTROL SUGAR PRICES COULD ACHIEVE ANY GREAT OR LASTING SUCCESS. HOWEVER, ANNOUNCEMENTS OR PRESS STATEMENTS THAT THE LA PRODUCERS ARE CONSIDERING SUCH A STEP COULD PRODUCE A STRONGLY NEGATIVE REACTION IN THE U.S. PRESS, PUBLIC AND MOST IMPORTANT, THE CONGRESS, WHICH IN THE PAST HAS PLAYED A MAJOR ROLE IN U.S. SUGAR POLICY. CHAIRMAN FOLEY OF THE

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PAGE 04 STATE 061168

HOUSE AGRICULTURE COMMITTEE INFORMALLY TOLD DEPARTMENT OFFICERS MARCH 7, THAT HE INTENDS TO HOLD HEARINGS ON WHAT OUR FUTURE SUGAR POLICY SHOULD BE QUOTE WITHIN SIXTY DAYS UNQUOTE.

8. WE ARE CONCERNED THAT THE LA SUGAR PRODUCERS MEETING NOT BECOME A FORUM FOR DISCUSSION OF MAINTENANCE OF PRICE PROPOSALS AND THAT ITS BASICALLY TECHNICAL PURPOSES NOT BE MISUNDERSTOOD NOR MISREPRESENTED IN THE PRESS. THE DOMINICAN HOSTS AND SOME OTHER LA GOVERNMENTS APPEAR SENSITIVE TO OUR CONCERN. WHILE WE RECOGNIZE THAT SOME INDIVIDUAL PRODUCER COUNTRY DELEGATIONS CANNOT BE PREVENTED FROM MAKING PROVOCATIVE PRESS STATEMENTS FOR HOME CONSUMPTION, WE WOULD HOPE THAT THE HOST AND OTHER DELEGATIONS WOULD MAKE CLEAR THAT THE PURPOSE OF THE MEETING

IS NOT TO PURSUE CARTEL-LIKE ARRANGEMENTS.

9. ACTION REQUESTED: POSTS ARE REQUESTED TO MAKE THE POINTS IN PARA 8 TO APPROPRIATE HOST COUNTRY GOVERNMENT AND SUGAR INDUSTRY OFFICIALS WHILE AVOIDING AN APPROACH WHICH WOULD BE COUNTER-PRODUCTIVE. POSTS MAY DRAW ON THE BACKGROUND CONTAINED IN PARAS 3 TO 7. THE DEPARTMENT IS INTERESTED IN THE REACTIONS OF THE OFFICIALS AND IN ANY INFO POSTS CAN OBTAIN ON PLANS FOR THE PUERTO PLATA MEETING. INGERSOLL UNQTE KISSINGER

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